

# Welcome!

## Individual Taxation: Wrapping up 2022 and Planning for 2023

January 20, 2023

Taking Care of Your  
Financial Health



1

## Torrance Memorial Highlight

### Emergency Department Expansion Campaign



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2

## Types of Planned Gifts

1. **Bequest** – gift through will, living trust or designation in a qualified retirement plan.
2. **Immediate Charitable Gift Annuity** – Simple contract between donor and the Torrance Memorial Foundation whereby lifetime payments are made to one or two individuals.
3. **Deferred Charitable Gift Annuity** – Annuity payments are deferred until a specified date in the future.
4. **Charitable Remainder Trust** – Trust that provides fixed or variable payments to named beneficiaries for life or a specified term of years.
5. **Retained Life Estate** – Gift of remainder interest in home or farm. Donor retains the right to live in the home for life.
6. **IRA Beneficiary** – Naming Torrance Memorial as the beneficiary of your retirement accounts (percentages can be designated as desired)

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3

## IRA Qualified Charitable Distribution (QCD) / Charitable Rollover

- Gift up to \$100,000 from your IRA to Torrance Memorial
- SECURE Act 2.0 – after 2023 indexed for inflation & one-time \$50,000 transfer to charitable gift annuity (CGA) starting 2023
- Qualifies as your RMD
- Must be 70½ years of age
- Donation must come directly to Torrance Memorial from IRA administrator (check payable to Torrance Memorial Foundation)
- Become member of Heritage Society

**Not included in your income for your tax return**

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4

## Resource for Planned Giving

[www.TorranceMemorialFoundation.org/planned-giving](http://www.TorranceMemorialFoundation.org/planned-giving)

- Learn about the different arrangements available
- Plug in some numbers in the “gift calculator” to get an idea of how this type of gift might work for you
- **Download a FREE estate planning kit**
- Contact Sandy VandenBerge at (310) 784-4843  
[sandy.vandenberge@tmmc.com](mailto:sandy.vandenberge@tmmc.com)



Financial Health articles - [www.torrancememorialfoundation.org/News](http://www.torrancememorialfoundation.org/News)

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5

## How to Donate to Torrance Memorial

### Online

<https://www.torrancememorialfoundation.org/Donate>

### By Phone

Please call Torrance Memorial Foundation at 310-517-4703

You may charge your gift to your credit card or make a gift pledge

### By Mail

Check or credit card information to: Torrance Memorial Foundation

3330 Lomita Blvd

Torrance, CA 90505

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6

Individual Taxation:  
Wrapping up 2022  
&  
Planning for 2023

January 20, 2023  
via Zoom

## Presenters

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7

## **New Year's Resolutions**

- I will pay attention to each Form 1098, W2 and 1099
- I will keep good records
- I will not believe everything on the Internet
- I will listen to my friends and family cautiously
- I will deal with notices promptly
- I will not be afraid of the IRS or FTB
- I will not speak with solicitors regarding income tax

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8

## Agenda

- Common Myths
- Tax Tables and AMT
- Income
- Social Security and Retirement
- Cap Gains/Losses and Investment Income
- Credits and Deductions
- Other Miscellaneous Items
- California Specific Changes
- Filing Information

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9

## Common Myths

- “If you do not receive a W-2 or 1099, the income is not reportable.”
- “If I set up a passthrough business (ie. LLC), I get more deductions.”
- “My car salesman, wedding planner, real estate agent...told me it was deductible.”
- “My emotional support animal is deductible as a dependent.”

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10

## 2022 Tax Rates / Tables

- The US Income tax system is progressive. As you make more money, that money is taxed at a higher rate
- The highest tax bracket is still 37% for anyone (single/MFJ)
- For those high-income folks, 37% is their “Marginal Tax Rate,” meaning each additional dollar they make over a certain threshold amount is taxed at 37%
  - ✓ This doesn’t mean, however, a person making over a certain amount turns 37% of it over to the IRS!
  - ✓ Think of our tax system as a layered cake. The more layers you eat (more money you make), the more calories you consume (more taxes you pay)
  - ✓ “Effective Tax Rate” is the average tax rate

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11

## Tax Tables – Federal Tax Brackets

2022				2023			
Bracket	Single	HoH	MFJ	Bracket	Single	HoH	MFJ
10%	Up to \$10,275	Up to \$14,650	Up to \$20,550	10%	Up to \$11,000	Up to \$15,700	Up to \$22,000
12%	\$10,275 - \$41,775	\$14,650 - \$55,900	\$20,550 - \$83,550	12%	\$11,000 - \$44,725	\$15,700 - \$59,850	\$22,000 - \$89,450
22%	\$41,775 - \$89,075	\$55,900 - \$89,050	\$83,550 - \$178,150	22%	\$44,725 - \$95,375	\$59,850 - \$95,350	\$89,450 - \$190,750
24%	\$89,075 - \$170,050	\$89,050 - \$170,050	\$178,150 - \$340,100	24%	\$95,375 - \$182,100	\$95,350 - \$182,100	\$190,750 - \$364,200
32%	\$170,050 - \$215,950	\$170,050 - \$215,950	\$340,100 - \$431,900	32%	\$182,100 - \$231,250	\$182,100 - \$231,250	\$364,200 - \$462,500
35%	\$215,950 - \$539,900	\$215,950 - \$539,900	\$431,900 - \$647,850	35%	\$231,250 - \$578,125	\$231,250 - \$578,100	\$462,500 - \$693,750
37%	Over \$539,900	Over \$539,900	Over \$647,850	37%	Over \$578,125	Over \$578,100	Over \$693,750
Personal Exemption	\$0	\$0	\$0	Personal Exemption	\$0	\$0	\$0
Standard Deduction	\$12,950	\$19,400	\$25,900	Standard Deduction	\$13,850	\$20,800	\$27,700
Add'l Deductions				Add'l Deductions			
- Blind or Elderly	\$1,750	\$1,750	\$1,400	- Blind or Elderly	\$1,850	\$1,850	\$1,500
- Blind & Elderly	\$3,500	\$3,500	\$2,800	- Blind & Elderly	\$3,700	\$3,700	\$3,000

Personal Exemption is suspended through 2025 per TCJA, but the exemption amount is still adjusted for inflation.

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12

## Tax Rates - Single

### Example 1 (Think of Layer Cake)

A single taxpayer has taxable income of \$75,000

2022 Tax table	
Not over \$10,275	10%
\$10,275 - \$41,775	12%
\$41,775 - \$75,000	22%

1st Layer	10,275.00
Rate	0.10
10% tax	1,027.50
2nd Layer (\$41,775 - \$10,275)	31,500.00
Rate	0.12
12% tax	3,780.00
3rd Layer (\$75,000 - \$41,775)	33,225.00
Rate	0.22
22% tax	7,309.50
Total Tax	12,117.00

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13

## Tax Rates - Single

### Example 1 – Results . . .

Taxable income  
\$75,000

Tax  
\$12,117



Taxable income  
\$75,000 x .22 =

Tax  
\$16,500



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14

## Tax Rates – Married Filing Joint (MFJ)

### Example 2

A Married Filing Joint couple has the following taxable income:

Source	Amount
Wages (W2)	130,000
Wages (W2)	30,000
Interest income	500
Rental income	<u>15,000</u>
Total income	<b>\$175,500</b>

After standard deduction of \$25,900, their taxable income is \$149,600

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15

## Tax Rates - MFJ

### Example 2 cont'd...(Think of Layer Cake)

After deductions, their taxable income is \$149,600. Their tax is calculated as follows:

2022 Tax table	
Not over \$20,550	10%
20,550 – 83,550	12%
80,251 – 149,600	22%

			Base	Rate	Tax
1st Layer	20,550.00	0	20,550.00	10%	2,055.00
2nd Layer	83,550.00	(20,550.00)	63,000.00	12%	7,560.00
3rd Layer	149,600.00	(83,550.00)	66,050.00	22%	14,531.00
			Total Tax Liability		<b>24,146.00</b>

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16



## Tax Rates - MFJ

Example 2 – Results . . .

Taxable income  
\$149,600

Tax  
\$24,146



Taxable income  
 $\$149,600 \times .22 =$

Tax  
\$32,912



Taxable income  
 $\$175,500 \times .22 =$

Tax  
\$38,610



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17

## California Taxes

- CA income tax system is also progressive. As you make more money, that money is taxed at a higher rate.
- Tax rates go as high as 13.3%



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18

## California Taxes

### California Tax Brackets

2022				2023			
Bracket	Single	HoH	MFJ	Bracket	Single	HoH	MFJ
1%	Up to \$10,099	Up to \$20,212	Up to \$20,198	1%			
2%	\$10,100 - \$23,942	\$20,213 - \$47,887	\$20,199 - \$47,884	2%			
4%	\$23,943 - \$37,788	\$47,888 - \$61,730	\$47,885 - \$75,576	4%			
6%	\$37,789 - \$52,455	\$61,731 - \$76,397	\$75,577 - \$104,910	6%		TO BE ISSUED SOON	
8%	\$52,456 - \$66,295	\$76,398 - \$90,240	\$104,911 - \$132,590	8%			
9.3%	\$66,296 - \$338,639	\$90,241 - \$460,548	\$132,590 - \$677,278	9.3%			
10.3%	\$338,640 - \$406,364	\$460,549 - \$552,658	\$677,279 - \$812,728	10.3%			
11.3%	\$406,365 - \$677,275	\$552,659 - \$921,095	\$812,729 - \$1,354,550	11.3%			
12.3%	Over \$677,276	Over \$921,096	Over \$1,354,550	12.3%			

California has a Mental Health Services 1% surtax on taxable income above \$1 million (for all filing statuses). This is not reflected in the brackets.

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19

## Alternative Minimum Tax (AMT)

### What is AMT?

- AMT is a parallel tax system created in the 1960s that operates in the shadow of the regular tax, in which it adds back income that is tax-free and disallows deductions allowed under regular tax code.
- Credits such as Child Care Credit/Adoption Credit/Child Tax Credit, to name a few, can offset AMT.
- AMT is an add-on to the regular amount of tax owed, NOT an amount you alternatively pay!
- Tax rates of 26% and 28% applied to determine add-on
- Tax Cut and Jobs Act dramatically lowered taxpayers affected by AMT

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20

## Alternative Minimum Tax (AMT)

### AMT Changes

#### Exemption Amounts

Filing Status	2022	2023
Single, Head of Household	75,900	81,300
Joint, SS	118,100	126,500
Married Filing Separate	59,050	63,250
Estates and Trusts	26,500	28,400

#### Exemption Phase-out Thresholds

Filing Status	2022	2023
Single, Head of Household	539,900	578,150
Joint, SS	1,079,800	1,156,300
Married Filing Separate	539,900	578,150
Estates and Trusts	88,300	94,600

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21

## Income

- Wages (W-2 or 1099)
  - ✓ W-2 issued by employers by January 31<sup>st</sup>
  - ✓ 1099-NEC issued for non-employee compensation > \$600
- Royalties, Rents, Other Income: 1099-MISC issued (> \$10 or \$600)
- Retirement plan distributions: 1099-R issued
- Social Security: SSA-1099
- Investment interest, dividends, gains, etc.: 1099-Int, 1099-Div and 1099-B
- Crowdfunding: 1099-K issued and may be reportable income unless transactions through a 501(c) organization
- Gifts with a quid pro quo
- Legal settlements often taxable (unless involving physical injury)
- Tax refund is taxable if claimed as an itemized deduction in the prior year
- Gambling winnings in excess of losses

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22

## Income Court Case

### **Soler, Jennifer A. v. Comm. (TC Memo 2022-78)**

- Mrs. Soler and her husband filed a joint return for tax years 2012 to 2015.
- Mrs. Soler earned an annual salary of \$160,000 and her husband earned income from his consulting and real estate business which was reported on Schedule C.
- They neglected to report the consulting business income for 4 years.
- Mrs. Soler requested “Innocent Spouse Relief” from the tax assessment (included penalties and interest) claiming she did not know about her husband’s activities. Claimed she thought her husband’s income were gifts from her mother-in-law.
- Tax court denied relief as a result that a, “Reasonable person” would possess knowledge that the returns were likely incorrect.

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23

## Exclusions from Income

- Gifts and Inheritances (unless income with respect to the decedent)
- Life insurance premiums
- Disaster relief payments
- 14-days or less or rental income (no deductions either)
- Tax-free municipal bonds (check state requirements)
- Most public welfare benefits
- Physical injury legal settlements or wrongful incarceration settlements

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24

## Income Court Case (Settlement Tax Scenario)

2018 Monsanto case vs. Groundskeeper Dewayne Johnson settled where the plaintiff was awarded \$39 million in physical injury compensatory damages and \$250 million in punitive damages.

Hypothetical tax scenario:

- Court costs and attorney fees are roughly half of the total award
- Punitive damages of \$250 million will all be taxable
- Physical injury compensatory damages of \$39 million will be tax free
- Attorney fees not deductible on Federal return (unless related to discrimination, whistleblower or businesses)
- Attorney fees subject to Federal 2% AGI limitation on California return
- Expected \$100 million tax bill for Federal and \$20 million tax bill in California
- Net amount left...Roughly \$25,000,000 back to the plaintiff after legal fees and taxes

**Upon Appeal, court decision was reversed in part and damages were reduced.**

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25

## Social Security and Retirement Income



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26

## Retirement Income

### Required Minimum Distributions (RMDs)

- Yearly RMD Calculation = Retirement Plan Balance divided by a life expectancy factor (table goes up to age “120+”)
- Can wait to take RMDs until Age 73 effective January 1, 2023 and again to Age 75 starting on January 1, 2033.
  - Consider delaying if you will have lower income in year after you turn 72 or if you expect large deductions in that year.
  - Consider delaying if you marry in the year you turn 73

### SECURE ACT 2.0 just became law...

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27

## Secure Act 2.0

- Penalties for failing to take RMD will decrease to 25% of RMD amount (from current 50%)
- In 2024, RMDs will no longer be required from employer Roth accounts
- Age increase to 73 and 75 years old
  - ✓ If turning 72 in 2023, consider delaying if not required
  - ✓ Consider impact in 2025 if you delay (two RMDs)
- Qualified Charitable distribution (QCD) expansion to include a one-time gift up to \$50,000 beginning in 2023
- Starting in 2024, employers will be able to match employee student loan payments with matching payments to a retirement account
- 529 Plans: After holding for 15 years, beneficiary can roll over up to \$35,000 into a ROTH IRA (maxed at \$35k per lifetime)

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28

## Social Security

### Social Security eligibility is based on earning “credits”

2022 = each \$1,510 earned a credit for Social Security

- Can only earn 4 credits per any one year
- Once earn 40 credits, eligible for social security upon reaching retirement age
- Benefits based on the average of highest 35 years of income, adjusted for inflation

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29

## Social Security

- Benefits can be taken at any time upon reaching age 62
- Medicare eligibility at age 65
- Entitled to full Primary Insurance Amount at age of 67
- Delay or not delay????
  - Earn a delayed earnings credit (8% annually) to wait until you are 70 years old
  - Per 2022 Social Security Trustees Report, “Social Security’s total cost is projected to be higher than its income in 2022 and all later years.”
  - Consider spending habits, life expectancy and necessity

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30

## Working and Social Security Benefits

Retirement age = 66 for people born 1943-1954

1955 and on = add two months for each year until 67 is reached

1960 or later = 67

- Younger than retirement age  
\$1 reduction for every \$2 of income\* above the annual limit. The 2022 income limit is \$19,560.
- In the year of full retirement age  
\$1 reduction for every \$3 of income\* above the annual limit. The 2022 income limit is \$51,960.
- Once full retirement age is reached  
No reduction in benefits, no matter how much you earn

\* Not included in the income calculation: interest, pension, annuities and investment income.

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31

## Medicare

### Medicare Premiums

- One-off events like selling a home for a large gain can trigger a Medicare surcharge

If your yearly income in 2020 (for what you pay in 2022) was			You pay each month (in 2021)
File individual tax return	File joint tax return	File married & separate tax return	
\$91,000 or less	\$182,000 or less	\$91,000 or less	\$170.10
above \$91,000 up to \$114,000	above \$182,000 up to \$228,000	Not applicable	\$238.10
above \$114,000 up to \$142,000	above \$228,000 up to \$284,000	Not applicable	\$340.20
above \$142,000 up to \$170,000	above \$284,000 up to \$340,000	Not applicable	\$442.30
above \$170,000 up to \$500,000	above \$340,000 up to \$750,000	above \$91,000 and less than \$409,000	\$544.30
\$500,000 or above	\$750,000 and above	\$409,000 and above	\$578.30

32



## Capital Gains and Dividends

### Dividend and capital gains rates unchanged

The top tax bracket for qualified dividends and capital gains is 20% (23.8% if the net investment income tax applies)

0%	15%	20%
SINGLE ≤ \$41,675 HoH ≤ \$55,800 MFJ ≤ \$83,350 Estates/Trusts ≤ \$2,800	SINGLE: \$41,676 to \$459,750 HoH: \$55,801 to \$488,500 MFJ: \$83,351 to \$517,200 Est/Tst: \$2,801 to \$13,700	SINGLE: Over \$459,751 HoH: Over \$488,501 MFJ: Over \$517,201 Estates/Trusts: \$13,701

***Note! CA does not have a reduced capital gains rate***

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33

## Capital Losses

- Losses netted against capital gains.
- Net Capital Losses are deducted against ordinary income up to \$3,000 per year (limit since 1978) and carried over until exhausted. Some planning tips:
  - ✓ Tax Harvesting
  - ✓ Gifting appreciating stock to lower income children/parents in 0% tax bracket
  - ✓ Donate appreciated stocks and avoid gain (also deduct fair market value of stock)
- Beware of mutual funds and rebalancing at year-end:

MARKETS | THE INTELLIGENT INVESTOR

### The Huge Tax Bills That Came Out of Nowhere at Vanguard

A change that benefited big clients left little ones holding the bag

<https://www.wsj.com/articles/vanguard-target-retirement-tax-bill-surprise-11642781228>

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34

## Additional 3.8% surtax on Net Investment Income (NII)

### Additional 3.8% tax on unearned income such as:

- Interest, dividends, annuities, royalties, rents
- Income from trade that is passive

### A 3.8% tax is imposed on the lesser of:

- Net investment income for the tax year OR
- Modified adjusted gross income over the threshold amounts:

Single/HOH	\$200,000
MFS	\$125,000
MFJ	\$250,000

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35

## What is Net Investment Income?

### Net Investment Income does not include:

- Wages, unemployment, social security, and alimony
- Items taken into account in determining self-employment income (ie. and operating income from active businesses)
- Distributions from qualified employee benefit plans
- Interest on tax-exempt or tax-deferred vehicles such as:
  - Municipal bonds
  - Life insurance
  - Veteran's benefits
  - Excluded gain from sale of a personal residence
  - Other items otherwise excluded from gross income

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36

## Other Net Investment Income (NII)

### NII is the sum of gross income from:

- Trade or business that is passive with respect to the taxpayer, a trade or business of trading in financial instruments, or a trade or business of trading in commodities.
- Net gain attributable to the disposition of property other than property held in any trade or business not described above
- Gain on the sale of personal residence in excess of the allowable exclusion (\$250,000 for single filers and \$500,000 for joint filers)

### NII is reduced by any deductions allowable to such income

- Investment advisory fees – **not allowed for 2018-2025**
- Investment Interest (to the extent allowed)
- State income tax (allocated between investment & other income) – only portion deducted on Schedule A

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37

## Federal Credits

- Child Tax Credit: Up to \$2,000 per qualifying child
- Other Dependent Credit: Up to \$500 non-refundable credit per dependent
- Child and Dependent Care Credit (% and amount significantly raised in 2022)
- Adoption Credit (up to \$14,890 in 2022)
- Saver's Credit up to \$2,000
- Premium Tax Credit for health insurance coverage obtained by low income individuals
- Earned Income Tax Credit for low-income workers (ie. max \$59k income with 3 kids)
- Education Credits to include American Opportunity Tax Credit (up to \$2,500) and the Lifetime Learning Credit (up to \$2,000)

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38

## Inflation Reduction Act of 2022

- Largest effort in history to promote reductions in greenhouse emissions
- Incentives for individuals and for businesses. For individuals:
  - **Clean Vehicle Credit**
    - ✓ Up to \$7,500 credit for EV, hybrid plug-ins and hydrogen vehicles
    - ✓ No longer has a 200,000 unit limit per manufacturer
    - ✓ Restricted to final assembly in North America and AGI restrictions (\$300k max for MFJ, \$225k for HOH, and \$150k for all others)
    - ✓ Retail price limit (\$80k for SUV/Truck and \$55k for other vehicles)
    - ✓ Leased and used vehicles also eligible for credit
    - ✓ Credit transferable to dealer

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39

## Inflation Reduction Act of 2022 (cont'd)

- **Energy Efficient Home Improvement Credit**
  - ✓ 2022: Up to 10% of property with lifetime credit limit of \$500 (\$200 for windows)
  - ✓ 2023: Increasing to 30% of cost with up to a \$1,200 *annual* credit for qualified energy property (ie. insulation), windows and doors.
- **Residential Clean Energy Credit**
  - ✓ Primarily solar, fuel cells, and heat pumps
  - ✓ Full 30% credit on price (taken in year the system put into service)
  - ✓ California has rebates but no comparable tax credit

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40

## Deductions

### Standard vs. Itemized Deductions

- Medical and Dental Expenses (above 7.5% of AGI)
- State and local taxes (\$10k max per year)
- Qualified residence interest
- Investment Interest expense
- Charitable contributions
- Personal property taxes (ie. DMV)
- Gambling losses
- Casualty and theft losses (only from federally declared disaster areas)...[WATER?](#)
- Conservation Easements
- Miscellaneous deductions subject to 2% AGI (suspended until Jan 1, 2026)

Filing Status	2022 Standard Deduction
Single; Married Filing Separately	\$12,950
Married Filing Jointly; Qualifying Widow(er)	\$25,900
Head of Household	\$19,400

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41

## Medical and Long-Term Care

### Medical Expense Deduction

- 7.5% of AGI expense threshold to be deductible (now permanent threshold per the COVID Relief Bill)
- Deductions include medical premiums, copays, vision, surgeries, dental care, medications, glasses, at-home care, hearing aids, mileage, etc.
- Cannot deduct purchases for general health not medically prescribed (gym memberships, daily vitamins, elective surgeries, diet food, etc.) or cosmetic
- In 2022, up to \$5,650 in premiums paid for long-term care insurance per person qualifies as a deductible expense
- Retirement communities move-in high costs can be partly allocated to this deduction
- In-home pools, air conditioning and saunas...

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42

## Mortgage and Property/Local Taxes

### State and Local taxes (SALT) limit

- Federal deduction is still limited to \$10,000; California is under old rules
- 2021 saw many states (including California) allow a loophole tax payment through passthrough entities to essentially enable an exceedance of \$10,000
- Inquire with your accountant if you have business entity that is not disregarded

### Qualified Residence Interest

- Deduction is limited to new mortgages (after 12/31/2017) of \$750,000 for MFJ
- Old limit mortgage is \$1,000,000 or \$1,100,000 for California
- Primary Residence and/or a Second Home
- Automatic paper audits if interest deduction looks a bit too much
- Voss Case...

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43

## Mortgage Court Case

### Voss vs. Commissioner (2015)

- Two unmarried co-owners of real property both claimed up to \$1 million of home acquisition debt and \$100,000 of home equity debt (\$2.2 million total deduction)
- IRS argued the deduction should be limited to only \$1.1 million total, not each.
- IRS Lost
- The Court stated, "We...agree the debt limit provisions result in a marriage penalty."

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44

## Charitable Contributions

### IRAs & Charity (Qualified Charitable Distribution)

- Individuals 70½ and older may make tax-free distributions (up to \$100,000) to public charities in lieu of required minimum distributions (RMDs)
  - ✓ Reduces AGI which changes rules for phase-outs
  - ✓ Not subject to charitable contributions 50% limitation
  - ✓ Does not apply to private foundations
  - ✓ 1099-R does not report QCDs (**DO NOT include in income**)
- \$100k limit to index for inflation after 2023

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45

## Charitable Contributions

### 50%, 30% or 20%

- 50% limit applies to most donations to 501(c) organizations such as churches, schools, hospitals, government entities, scientific and other causes
- 30% limit applies to gifts of capital gain property or gifts to certain veteran organizations, fraternal societies and certain private foundations
- 20% limit applies to gifts of capital gain property to non-50% charities (i.e. most family-funded private foundations)
- Carried over 5 years within each category or 15 years for qualified conservation contributions

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46

## Charitable Contributions

### Documentation for charitable contributions has been tightened up

- The IRS is challenging many taxpayers' charitable contribution deductions
- It is imperative to maintain receipts for qualified charitable contributions such as a cancelled check, receipt or a letter showing the name of the charity, date of contribution and amount
- Check registers, credit card statements or personal notations are no longer sufficient to support charitable contributions (IRC Section 170(f)(8))
- Contributions of \$250 or more must have written acknowledgement dated before the end of the year from the donee (upon audit, must have letter dated by tax return filing)

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47

Charitable Contribution Substantiation Information Required			
Amount	Documentation	Substantiation	
Cash donations of less than \$250	Bank record	Includes canceled check, bank, credit union, or credit card statement showing name and transaction posting date (credit card)	
	Written communication from charity	Name of charity, date, and amount of contribution	
	Payroll deduction	Pledge card and pay stub, W-2 wage statement, or other document furnished by employer, including total amount withheld for charity	
Cash donations of \$250 or more	Written acknowledgment from the charity for each donation	Name of charity, date, amount paid, description, and estimate of value of goods or services provided by the charity	
Noncash contributions of less than \$250	Receipt from donee or reliable records		
Property donations greater than \$250 and not more than \$500	Contemporaneous written acknowledgment	Name of charity, date, amount paid, and description (but not value) of goods or services provided by the charity	
Property donations greater than \$500 and not more than \$5,000	Written acknowledgement	All of the above, plus: <ul style="list-style-type: none"> <li>• How you got the property;</li> <li>• Date you got the property; and</li> <li>• Cost or other basis</li> </ul> Must file Form 8283	
Donations of \$5,000 or more excluding stock, certain works of art, and autos	Qualified appraisal	Attach appraisal to return and complete page 2 of Form 8283	Advisory Council

48



## Charitable Contributions

### Tax Court Cases

- **Brown v. Comm., TC Memo 2016-39:** Church founder and pastor was denied charitable deductions above limits as he only had after-the-fact generated receipts.
- **James C. Platts, TC Memo 2018-31:** Taxpayer donated a house to a tax-exempt organization. The \$176,225 charitable deduction (appraised value) was disallowed because the attached appraisal to the tax return was not a qualified appraisal. Additional point was the deduction was made in the wrong year.
- **Mann v. US (4<sup>th</sup> Cir. 2021):** Mann Family purchased a property in Maryland and intended to demo and rebuild. Costs to renovate were too great and they decided to donate it to a 501(c) organization. Unfortunately, they attempted to deduct the full cost while still salvaging some components for resale. The appraisal did not support this and was deemed unqualified.

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49

## Other Miscellaneous Items

### Popular Tax Scams

- Identity Theft
- Pervasive Telephone Scams – **THE IRS NEVER CALLS FIRST!**
- Soliciting W-2 forms from payroll companies or HR professionals
- Impersonation of Charitable Organizations
- False Income, Expenses or Exemptions

### Reporting Tax Scams

- Can complete referral form found at: [www.irs.gov/scams](http://www.irs.gov/scams)
- Report identity theft via: [www.ftc.gov/idtheft](http://www.ftc.gov/idtheft)
- CA - email [ftbtaxscams@ftb.ca.gov](mailto:ftbtaxscams@ftb.ca.gov)

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50

## Other Miscellaneous Items

### Virtual Currency

- Per Notice 2014-21, Virtual Currency is treated as property, not as currency.
- 1040 form requires all taxpayers to answer a question if they owned, received as gift, sold or disposed of virtual currency during the 2022 tax year (top of 1040)
- Year 2023 or later, brokers must report crypto transactions to the IRS and the investor on Form 1099-B.
- In 2021, federal courts in California and Massachusetts agreed with the IRS that crypto exchanges have to release detailed personal information from 2016 on:
  - ✓ “Soft” warning letters being issued by the IRS (Letter 6173 and 6174)
  - ✓ CP2000 letters indicate prior amounts due (do not ignore)

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51

## Retirement

### IRA contribution is \$6,500 in 2023 (\$1,000 catch-up for age 50 and older)

- IRA contributions only up to earned income (which now includes alimony)
- SECURE Act also added fellowships, stipends and IHSS payments as income qualifiers
- Beginning in 2020, no age restriction to contributions (but no California deduction allowed)
- Deductible IRA Contributions made after age 70½ will reduce QCD made in later years
- Spousal IRA contribution allowed even if spouse does not earn income

### Back door Roth conversion still an option

- Allows high-income individuals to make nondeductible contributions to Roth IRAs
- Also a useful tool in low-income years to reduce future RMDs and take advantage of low tax rates

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52

## Federal Estate, Gift & GST Taxes

- For 2023, the lifetime estate exemption or lifetime gifting amount is \$12.92 million<sup>1</sup> (\$25.84 million for married couples)
- The annual tax-free gift amount is \$17,000
- Higher estate and gift tax exemption will sunset on December 31, 2025 and revert back to ~\$5 million (adjusted for inflation)

Exemption Type	2021	2022	2023
Lifetime Estate Exemption	\$11.7 Mil	\$12.06 Mil	\$12.92 Mil
Tax-Free Gift (per recipient)	\$15,000	\$16,000	\$17,000

<sup>1</sup>Generation-skipping transfer

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53

## Court Cases

- DeMuth v. Commissioner (2022): Personal checks written by a Decedent before his death but not paid until after death includible in gross estate.
- Warne v. Commissioner (TC Memo 2021-17): Estate included 100% interest in an LLC valued at over \$25 million.
  - ✓ 25% membership interest left to church
  - ✓ 75% remainder left to Family Foundation
  - ✓ Claimed \$25 million as a deduction, but Tax Court reduced this value as the value was discounted for lack of control/marketability of the LLC.

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54

# California

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55

## California

- **Individual Health Care Mandate:** Required for all California residents to have health insurance beginning 1/1/2020 unless qualified for an exemption.
- **Calsavers:** By June 30, 2022, employers with five or more employees are required to have a retirement plan in place for workers.
- **AB150:** Helped pass-through business owners to pay a 9.3% tax on net income to apply to increase tax deduction above \$10,000 SALT limitation.
- **Measure ULA:** “Mansion Tax” puts a 4% tax on Los Angeles property sales above \$5 million and 5.5% tax on property sales above \$10 million.
- **AB158:** New personal income tax credit for union dues paid

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56

## California Relief Payments

### California's Middle Class Tax Refunds

- Issued payments of \$200 to \$1,050, typically with a debit card or direct deposit
- Qualifications:
  - ✓ 2020 tax return by October 15, 2021
  - ✓ AGI on 2020 California return of <\$250k for single or <\$500k for married couples
  - ✓ Still a California resident
- Check Franchise Tax Board website for estimator and status.
- Also, you can contact 1-800-542-9332 for more information
- Excluded from California Taxable Income, but will receive a 1099-MISC for payments of \$600 or more. Federal Exclusion per General Welfare Exemption...Perhaps?

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57

## Filing Requirements

### Individual Income Tax Return must be filed if:

- Self-employment income is \$400 or more, or
- Income is over the standard deduction

Filing status	Standard Deductions (IRC §63)		
	2020 (Rev. Proc. 2019-44)	2021 (Rev. Proc. 2020-45)	2022 (Rev. Proc. 2021-45)
Married filing joint and qualifying widow(er)	\$24,800	\$25,100	\$25,900
Head of household	\$18,650	\$18,800	\$19,400
Single	\$12,400	\$12,550	\$12,950
Married filing separate	\$12,400	\$12,550	\$12,950

### Nanny Tax must be prepared if:

- Payments exceed \$2,400
- Must be reported on Schedule H

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58

## Tax Returns 2022

- The IRS will **begin** accepting and processing **electronically** filed tax returns on/about **January 23** and will issue refunds within ~21 days
- Paper tax returns will take much longer to process (6-12 months)
- IRS and FTB extended the filing and payment deadlines to **May 15, 2023** for those impacted by winter storms. Nearly all counties in California affected.
- Disaster loss deduction would be allowed as a result of the storms.

**Normal Filing deadline for 2022 tax returns (unless extended)**  
**Tuesday, April 18, 2023**

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59

## Tax Organizer

### PDFs available to help plan for taxes this year



2021

#### Questions (Page 1 of 5)

2

The following questions pertain to the 2021 tax year. For any question answered Yes, include supporting detail or documents.

#### Personal Information:

- |   | Yes                      | No                       |
|---|--------------------------|--------------------------|
| Did your marital status change? .....   | <input type="checkbox"/> | <input type="checkbox"/> |
| Are you married? .....  | <input type="checkbox"/> | <input type="checkbox"/> |
| If Yes, do you and your spouse want to file separate returns? .....                               | <input type="checkbox"/> | <input type="checkbox"/> |
| If No, are you in a domestic partnership, civil union, or other state-defined relationship? ..... | <input type="checkbox"/> | <input type="checkbox"/> |
| Can you or your spouse be claimed as a dependent by another taxpayer? .....                       | <input type="checkbox"/> | <input type="checkbox"/> |
| Did you or your spouse serve in the military or were you or your spouse on active duty? .....     | <input type="checkbox"/> | <input type="checkbox"/> |

#### Dependents:

- |   |                          |                          |
|---|--------------------------|--------------------------|
| Were there any changes in dependents from the prior year? .....                                     | <input type="checkbox"/> | <input type="checkbox"/> |
| <small>Note: Include non-child dependents for whom you provided more than half the support.</small> |                          |                          |

#### ITEMS YOUR CLIENT SHOULD BRING TO A TAX INTERVIEW

1. IRS Notice 1444-C and information regarding the amount of the third stimulus check.
2. IRS Letter 6419 and information regarding the amount of Advanced Child Tax Credit payments received.
3. 1099-Ks for merchant charges. Reconcile amounts on 1099s to amounts reported by the client for Schedules C or E (or business entity return).
4. 1099-Bs for sales of stock or securities. Reconcile amounts on 1099s to amounts shown on client reports, if any.
5. Property tax statements: Look at property tax bills and estimate of value of real property in California to verify that the county has properly computed tax based on reduced property values.
6. Property tax statements: Look for items that are not deductible as property taxes, such as HERO or PACE payments.
7. *Business agreement documents (W-9s, 1099-A for federal / California differences, Alaska*

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60

● Thank you!

# Questions?

## Disclosure

*This material is for general information only and is not intended to provide specific advice or recommendations for any individual. To determine what is appropriate for you, please consult a qualified professional.*

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61

## ● Follow-up Questions

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62